

Green and Pleasant Land

Britain's countryside after
the Common Agricultural Policy

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The cover photograph, taken by James Goldsworthy, is the view from a peak in the Peak District in Derbyshire over Ladybower Reservoir.

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Contents

1.	Introduction.....	4
2.	Why the CAP was introduced.....	5
3.	How the CAP works	7
	Interventions in the market price	7
	Export subsidies.....	7
	Import tariffs and quotas.....	7
	Direct payments	8
	Summary.....	8
4.	Reform to the CAP so far.....	9
	The MacSharry reforms	9
	Agenda 2000	10
	2003 reforms and the sugar regime	11
	Summary.....	12
5.	Environmental effects of the CAP.....	13
6.	Economic effects of the CAP	16
	The cost to the EU taxpayer	17
	The cost to the EU consumer.....	17
	The cost to other industries within the EU	18
	The calculation cost.....	19
7.	External effects of the CAP	20
	Beyond the CAP.....	22
8.	Moving to the abolition of the CAP	23
9.	The future of the countryside	25
	High value farming	25
	Tourism	26
	Sustainable communities and stewardship	26
	Niche markets.....	28
	Remain producing.....	29
10.	Conclusion	30

1. Introduction

The Common Agricultural Policy (CAP) was formulated at the founding of the European Community. By some it is seen as one of the cornerstones of the European Union (EU) and by others as its greatest folly. The history is one of a policy beset with problems, met with half-hearted attempts at reform. The interventions that characterise the CAP are presently under fire from all sides of the political sphere – from the Make Poverty History coalition to the UK Independence Party.

In the media the CAP is ever present. The *Economist* describes it as “demented”¹. The *New York Times* chooses to call it “odious”². The CAP is deserving of special attention, as while many other nations deploy some level of agricultural protection, the measures taken by the EU create the biggest trade distortions of any agricultural policy³. The agricultural policies of other OECD nations do not have the same far-reaching effect as that of the CAP.

Even among politicians themselves there are opponents, Gordon Brown for instance, has highlighted the plight of producers in the third world, condemned the policy for the impact on third world producers:

Think of the Mozambican sugar producer who cannot compete with European sugar beet farmers, because the subsidies Europeans receive enable them to sell more expensive goods at a cheaper price.⁴

While Tony Blair has even offered up the annual UK rebate in exchange for fundamental reform of the CAP, stating:

Of course if we get rid of the Common Agricultural Policy and we change the reason why the rebate is there, then the case for the rebate changes.⁵

With the impending WTO talks in Hong Kong⁶, there is yet another opportunity for Europe to take a lead in the freeing up of trade, starting with that most fundamental of commodities: food.

¹ ‘Europe’s scandalous farm policy’, *The Economist*, October 3rd 2002
http://www.economist.com/agenda/displayStory.cfm?Story_id=1365334

² ‘Promises, Promises’, *New York Times*, August 22nd 2005
<http://www.nytimes.com/2005/08/22/opinion/22mon1.html>

³ McGovern, M and Pace, C., ‘On International Agricultural Trade Reform’ presented to Academy of World Business, Marketing and Management Development, July 13-16 2004

⁴ Speech to UNICEF 29 June 2005 available at
<http://www.unicef.org.uk/press/pdf/gblecture05.pdf>

⁵ ‘Blair signals his desire to end EU farm subsidies’, *The Times*, June 30th 2005
<http://www.timesonline.co.uk/article/0,,13509-1674698,00.html>

⁶ Sixth WTO Ministerial Conference, World Trade Organisation,
http://www.wto.org/english/thewto_e/minist_e/min05_e/min05_e.htm

2. Why the CAP was introduced

Following the Second World War, the negotiations for the Treaty of Rome included provision for European governments to intervene in the agricultural sector with a view to preventing the food shortages that had blighted parts of Europe in the post-war period⁷. Agriculture was deemed important by those negotiating at the time, partly due to such wartime shortages and partly due to the pressure applied by countries such as France whose farmers had enjoyed historically high levels of protection⁸. The CAP also sat well with other members of the original six – agricultural employment comprised a high percentage of overall employment, and such countries already had protectionist policies in place⁹. The objectives of CAP prescribed by the Treaty were as follows:

- to increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour;
- to ensure a fair standard of living for farmers;
- to stabilise markets;
- to assure the availability of supplies;
- to ensure reasonable prices for consumers.¹⁰

It is obvious with the benefit of hindsight that some of these goals are intrinsically contradictory. Ensuring “a fair standard of living for farmers” (i.e. paying them above the market wage) is potentially difficult to reconcile with ensuring “reasonable prices for consumers”¹¹. The “stabilisation of markets” is also arguably at odds with this goal – such intervention buying invariably pushed the price of foodstuffs up rather than down, although this possibly only became clear with the benefit of hindsight.

From the beginning therefore the CAP exhibited signs of a confused policy, the real goals of which were either conflicting or unclear. We shall see that not only did the CAP fail to achieve many of these aims; in addition a host of other problems were generated.

In order to meet the superficially simple goals of the new agricultural policy, superficially simple mechanisms were put in place. Article 34 of the Treaty of Rome provided for the creation the “common organisation of the agricultural markets” (COMs), which were gradually introduced

⁷ *Common Agricultural Policy: beginnings to the present day* available from <http://europa.eu.int/scadplus/leg/en/lvb/l04000.htm>

⁸ Howarth, R., ‘The CAP: History and attempts at reform’, *Economic Affairs*, Volume 20 No. 2 (June 2000)

⁹ Hasha, G., *The European Union’s Common Agricultural Policy: Pressures for Change – An Overview*, Economic Research Service/USDA (October 1999)

³ Article 33 (39) of the Treaty of Rome, available from http://www.europarl.eu.int/factsheets/4_1_1_en.htm

¹¹ Gylfason, T., ‘The Macroeconomics of European Agriculture’, *Princeton Studies in International Finance* No. 78 (May 1995)

for products covered by the CAP. The European Commission states that 3 main principles, articulated in 1962, capture the nature of the COMs¹²:

- a unified market: this denotes the free movement of agricultural products within the area of the Member States; for the organisation of the unified market, common means and mechanisms should be used throughout the EU;
- Community preference: EU agricultural products are given preference and a price advantage over imported products; also, the protection of the internal market from products imported from third countries at low prices and from considerable fluctuations in the world market;
- financial solidarity: all expenses and spending which result from the application of the CAP are borne by the Community budget.

And so the CAP was born – a combination of price supports, protectionism, subsidy to farmers and a clause of “financial solidarity” – whatever the cost of the new policy, it would be borne by the member states regardless of whether they lost or gained by it. The price supports would take the form of intervention buying to try and buoy low prices (and in theory but not practice, selling in times of high prices), tariffs would be introduced on imported foodstuffs and farmers would receive direct financial assistance under the new system.

¹² *Common Agricultural Policy: beginnings to the present day* available from <http://europa.eu.int/scadplus/leg/en/lvb/l04000.htm>

3. How the CAP works

Meeting the objectives of the CAP required a series of measures administered by the Committee of Agricultural Ministers (CoAM). The support system is divided into two “pillars” – pillar one, which is concerned with price supports and subsidies, and pillar two, which is concerned with rural development¹³. More recently the emphasis has been on pillar two support and environmental issues, and how to reform pillar one support in the hope of avoiding the surpluses and intensive farming methods associated with the CAP. Farmers now receive a payment contingent upon compliance with animal welfare, environmental standards and ensuring land not cultivated is well maintained, for example.

Interventions in the market price

Target prices are set in place for each good covered by the CAP which are consistently higher than the market price. If the price EU farmers are receiving falls below what has been declared as an acceptable level, then a process of intervention buying takes place. The price then increases. This is the instrument that is, in theory, deployed with a view to satisfying the CAP aim of stabilising markets. In reality, massive surpluses have occurred; with producers knowing that all produce would be purchased at an inflated price, production was increased across the board, with an ever-increasing amount of money being spent on keeping the price high. Such price interventions have therefore led to absurd and wasteful levels of production while also leeching potential resources from other industries¹⁴.

Export subsidies

In addition, export subsidies exist to prevent the domestic European market being flooded with goods that are being encouraged, and to reduce the need for storage of surpluses. Historically speaking, the obvious production incentives (specifically the price support policies coupled with a guarantee of having goods purchased at this price) led to a large rise in food supply. The EC fairly rapidly made the transition from being a net importer to a net exporter of food. However, such was the increase in production that an increase in domestic supply threatened to make domestic support prices unsustainable, and consequently export subsidies were introduced¹⁵. In 2000 such market interventions caused the EU to spend €10.6 billion, some 12% of the total EU budget at the time¹⁶.

Import tariffs and quotas

Imports to the EU are subject to a tariff raising their cost to the “indicative” or “target” price from the market price. The price imports are raised to as a result of this measure is higher than

¹³ House of Lords European Union – Second Report Chapter 2 ‘Introducing the Common Agricultural Policy’ available at <http://www.parliament.the-stationery-office.co.uk/pa/ld200506/ldselect/ldcom/007/706.htm>

¹⁴ Gylfason, T., ‘The Macroeconomics of European Agriculture’, *Princeton Studies in International Finance* No. 78 (May 1995)

¹⁵ Tarditi, S. *Consumer Interests in the Common Agricultural Policy* (A study contracted by the European Commission to Professor Tarditi.)

¹⁶ Swinnen, J., *The EU Budget, Enlargement and Reform of the Common Agricultural Policy and Structural Funds*, Centre for European Policy Studies

the price at which domestic producers generally sell. As such, when the trading of foodstuffs occurs within the EU, member states possess an advantage in terms of price over those attempting to negotiate the tariff wall. Quotas are self-explanatory: a limit on the amount of a good that can be imported.

Direct payments

Again a fairly self-explanatory aspect of the policy, a direct payment is made to farmers from taxpayer funds. Prior to 2003 direct payments were administered based on the area of land planted or number of animals owned; by contrast after this date actual production is not required¹⁷. The incidence of direct payments to farmers has risen with each round of reform, with support pricing as a means of bolstering incomes taking on a reduced, although still significant, level of importance.

Paid set-aside is another measure aimed at reducing the level of surpluses. First instituted in 1992, farmers are paid to not plant crops on a certain percentage of the land, although small farms are not subject to this requirement.

Summary

Successive reforms have seen greater importance placed upon direct payments, although support prices remain in place, albeit at lower levels than previously. Similarly the emphasis on the environment has increased over time. There are other relatively minor details to the policy, and good-specific measures, but the above provides a reasonable guide to the main instruments of the CAP.

¹⁷ 'Common Agricultural Policy', Economic Research Service, USDA,
<http://www.ers.usda.gov/Briefing/EuropeanUnion/PolicyCommon.htm>

4. Reform to the CAP so far

The CAP has undergone many reforms in its history, although many of these have simply been changes in the way payments are administered or managed. The mechanisms aimed at raising farming incomes and ensuring the goals of the CAP were met were characterized by complex rules about the distribution of payments¹⁸. In general the CAP is regarded as possessing an incredible complexity in terms of the rules and bureaucracy, indicative of a system whereby short-term solutions were conceived to appease pressure from farming interests¹⁹. As such, the history of reform given here is brief, and described in terms of significant changes rather than minor details. To clarify, those reforms that have occurred are better described as changes; rather than removing the faults of the policy, often such “reforms” have made the situation worse²⁰.

Discussion as to how the CAP should be reformed was first undertaken in the 1970s, but little serious change occurred until the 1980s. The instinct of the CoAM has been to preserve the status quo, so only token measures were taken at first. The dairy industry serves as a reasonable example of myopic measures being enacted which ignored the fundamental problems of the CAP. In 1969 a subsidy was introduced for slaughtering dairy cows in an attempt to reduce the milk surpluses without having to reduce the price of milk²¹. By 1977 dairy expenditure was ominously high at 35% of the total Community budget, a problem met by a “co-responsibility levy” on dairy farmers (a tax), but the measure had little effect²². By 1984 quotas on milk production had been introduced, with fines for those who exceeded them; more generally in 1988 the European Council limited the proportion of the overall budget CAP could take²³.

The MacSharry reforms

The grasping attempts at reform would not attempt to tackle the underlying difficulties of CAP until the proposals in 1991 of Irish Agricultural Minister Raymond MacSharry. Noting the problems of surpluses generated by, among other things, support prices, and the fact incomes from this went primarily to large farms, he outlined reforms to remedy the situation²⁴. The cornerstone of the MacSharry reforms was the beginning of this “decoupling” – breaking the link between payment and production, in a shift to income rather than price support. However, the reforms did not represent a full decoupling, as while farmers do not receive payments based

¹⁸ *European Union Policy Making in the UK: A Brief History* available at http://www.socialsciences.manchester.ac.uk/gipp/publications/working_papers_docs/manchester_working_papers/MPP072003.pdf

¹⁹ Rickard, S., ‘The CAP: whence it came, where it should go’, *Economic Affairs*, Volume 20 No. 2 (June 2000)

²⁰ Howarth, R., ‘The CAP: History and attempts at reform’, *Economic Affairs*, Volume 20 No. 2 (June 2000)

²¹ Howarth, R. The CAP: History and attempts at reform *Economic Affairs* Volume 20 No. 2 (June 2000)

²² House of Commons Environment, Food and Rural Affairs – Ninth Report available at <http://www.publications.parliament.uk/pa/cm200102/cmselect/cmenvfru/550/55002.htm>

²³ Common Agricultural Policy: beginnings to present day available at <http://europa.eu.int/scadplus/leg/en/lvb/l04000.htm>

²⁴ The development and future of the CAP: Reflections Paper of the Commission available at <http://aci.pitt.edu/archive/00003415/01/000566.PDF>

on actual output, they were paid based on the number of hectares farmed or animals owned²⁵. This non-market incentive to produce under “partial decoupling” is therefore greater than a situation of full decoupling, and as such land prices will not reflect the “genuine” value that would be reflected in the true market price.

At the behest of the French government, the actual reforms that were discussed constituted a severely weakened version of the original proposition²⁶. Nonetheless a somewhat diminished form of the original idea was approved by the CoAM in 1992, and implemented in 1993/4. The specifics of what became known as the MacSharry reforms depended on the agricultural good in question. Cereal support prices were reduced, but not without a compensating payment based on the number of hectares planted²⁷. Beef saw a similar reduction in the support price, with a direct payment given based on the number of animals owned to offset the reduction²⁸. This demonstrates how endemic was the idea that farmers were entitled to support one way or the other; a change in the policy on support prices could only be engineered with a corresponding increase in direct payments. Not having to compete on the world market, coupled with the higher rents induced by the CAP meant that many farmers were utterly dependent on the price support system, and as a result such direct payments were considered necessary²⁹. This exemplifies why the CAP has in some ways become a self-perpetuating policy, and why it has been so resistant to real change.

There were also some provisions for some “greening” of the CAP³⁰. This consisted of incentives for low pollution production methods, forestation and the upkeep of land previously used for agriculture³¹.

Despite the limited nature of the changes relative to what could have been, the MacSharry reforms adopted were considered to have been the most far reaching since the creation of the CAP. Although less sweeping than many who sought reform would have liked, paved the way for a further round of reforms in the form of the Agenda 2000 CAP reforms.

Agenda 2000

The negotiation over the reform of that occurred under the banner of Agenda 2000 (actual negotiations took place in 1997) again produced nothing that could be construed as revolutionary or a challenge to the fundamental existence of the policy. It was, rather, a series of

²⁵ Fellmann, T. Direct, ‘Income Payments in Agricultural Policies’, IAES conference available at http://www.uni-hohenheim.de/~apo420/lecture-notes/AF-Policy/IAES_Chicago_Fellmann.pdf

²⁶ Howarth, R., ‘The CAP: History and attempts at reform’, *Economic Affairs* Volume 20 No. 2 (June 2000)

²⁷ Beard, N and Swinbank, A., ‘Decouple payments to facilitate CAP reform’, *Food Policy* 26 (2001)

²⁸ Ackrill, R., ‘Creating a pan-European CAP: Economic constraints and political realities’ available at <http://www.sgir.org/conference2004/papers/Ackrill%20-%20Creating%20a%20pan-European%20CAP.pdf>

²⁹ Daugbjerg, C., ‘Policy feedback and paradigm shift in EU agricultural policy: the effects of the MacSharry reform on the future of reform’, *Journal of European Public Policy* (June 2003)

³⁰ ‘Europe’s Agenda 2000: Strengthening and widening the European Union’ available at http://europa.eu.int/comm/agriculture/publi/review99/08_09_en.pdf

³¹ *Commission communication to the Council and European Parliament on the development and future of the Common Agricultural Policy*, pp. 32-37 (taken from Parliament)

small steps, again varying depending on the agricultural good in question. Beef, cereals and milk saw a reduction in the level of support prices to bolster those changes that occurred under the MacSharry reforms, but the level of tariffs remained unaddressed³². Support prices for cereals and milk were reduced by 15%, and by 20% for beef but not taking full effect until 2005³³. The more general aim was: “to deepen and widen the 1992 reform by replacing price support measures with direct aid payments and accompanying this process by a consistent rural policy”³⁴. Reforms of some degree were needed to remain in accordance with the 1994 Uruguay Round Agreement on Agriculture, as surpluses were expected which could not have been disposed of in world markets under the terms of the agreement³⁵. The changes that did occur were still arguably little more than the bare minimum required to remain in accordance with such agreements, but Agenda 2000 did herald a positive step in terms of reinforcing the MacSharry reforms.

Forward strides were made in terms of access to the EU market for the least developed nations of the world in 2001, with the so-called Everything but Arms (EBA) initiative. Under this system 49 lesser-developed countries are allowed to export goods to the EU market free of duties or quotas, with, as the name suggests, the exceptions of arms or munitions³⁶. In actual fact, bananas are only scheduled to fully enter this initiative in January 2006, sugar in July 2009 and rice in September 2009. This does, however, represent one of the few genuine improvements that has occurred in terms of agricultural trade.

2003 reforms and the sugar regime

In June 2003 a major reform was initiated, with an agreement lasting for 10 years until 2013. This was primarily because of the accession of ten new member states to the EU, whose economies are very much more agrarian than the EU norm. Under the scheme, many subsidies were scrapped and more market orientated reforms begun – subsidies were decoupled to a greater extent than ever before³⁷. The new regime has a single payment for farmers assessed on a multitude of factors, including environmental standards, animal welfare³⁸, building on those changes that occurred under the MacSharry reforms. While these reforms are welcome, they still mandate intervention prices and involve a substantial transfer of resources from taxpayers to farmers. In addition, other problematic areas remain, including external tariffs, export subsidies and the payments still linked to production (up to 25% of the previous level of arable per hectare payments for example³⁹).

³² Swinbank, A. ‘CAP Reform and the WTO: compatibility and developments’, *European Review of Agricultural Economics*, Vol 26 (3) (1999)

³³ *Agenda 2000 – A CAP for the future* available at http://europa.eu.int/comm/agriculture/publi/review99/08_09_en.pdf

³⁴ *Reform of the Common Agricultural Policy (CAP)* available at <http://europa.eu.int/scadplus/leg/en/lvb/l60002.htm>

³⁵ Meijl, H and Tongeren, F. The Agenda 2000 CAP reform, world prices and GATT-WTO export constraints *European Review of Agricultural Economics* Vol 29 (4) (2002)

³⁶ “EBA” – Everything But Arms initiative, EU Commission http://europa.eu.int/comm/trade/issues/global/gsp/eba/index_en.htm

³⁷ ‘CAP Reform – A Long Term Perspective for Sustainable Agriculture’, European Commission, http://europa.eu.int/comm/agriculture/capreform/index_en.htm

³⁸ ‘CAP Reform: Background’, Department for Environment Food and Rural Affairs <http://www.defra.gov.uk/farm/capreform/background/260603-intro.htm>

³⁹ ‘Analysis of the 2003 CAP Reform’, Organisation for Economic Cooperation and Development <http://www.oecd.org/dataoecd/62/42/32039793.pdf>

Not to be underestimated in the 2003 reforms were proposals for budgetary reform⁴⁰ with “Pillar 1” payments fixed initially (price support and direct payments). The budgetary ceiling is also only allowed to increase by 1% a year thereafter (a fall in real terms given EU25 inflation is currently 2.0%⁴¹). While “Pillar 2” (related to rural development) is expected to rise over the period, even in 2013 it is only expected to be slightly over a quarter of the value of “Pillar 1” interventions (42.3 to 13.2 billion Euros⁴²). These budgetary ceilings reflect a trend of decreasing support for agriculture as a percentage of the EU budget. A Select Committee Report points out that should these figures be adhered to, CAP expenditure will fall to 29% of the EU budget over the period 2007-2013, ending the period with 26%. This is down from a projected 45% in 2006 and 65% in 1988⁴³. Although increases are foreseen, this is almost exclusively regarding enlargement of the EU.

Finally sugar, the support framework of which has remained the same since 1968, is scheduled to undergo change. The European Commission has proposed (and such a proposition seems likely to come into effect) a cut in the support price by 39% by 2009, which is currently three times the world price⁴⁴. Farmers will be compensated with a payment valued at 60% of the price cut, and there will also be an incentive payment to sugar factories to shut down production. A payment is made for what would have been produced of €730 per tonne in year one, €625 in year two, €520 in year three with a final payment of €420 in year four⁴⁵. These reforms still caused anger among European sugar producers.

Summary

With the recent publication of the top recipients of CAP funds, including the Queen receiving £545,897, Prince Charles £680,835 and Britain’s second richest man, the Duke of Westminster £448,472 there are sure to be further pushes for reform⁴⁶. Expenditure, despite the imposition of the ceiling, still remains ludicrously high in absolute terms. While such a history of reform may constitute extremely dull reading it does draw attention to the intransigent nature of the CAP and its supporters. Time and again major reform has been blocked, restrained or the need for it simply ignored. The diluted version of the MacSharry reforms that were eventually adopted and their subsequent affirmation under Agenda 2000 did represent progress of sorts. 2003 saw further advances, but the essential, deep-seated problems generated by CAP remained.

⁴⁰ Cap Reform of 2003-4, David Kelch and Mary Anne Normile, Outlook Report No. (WRS0407) 13 pp, August 2004 US Department of Agriculture Economic Research Service <http://www.ers.usda.gov/publications/WRS0407/>

⁴¹ Office of National Statistics <http://www.statistics.gov.uk/cci/nugget.asp?id=19>

⁴² CAP Reform and EU Enlargement: The Future of European Agricultural Policy, Dirk Ahner, European Commission, DG Agriculture <http://europa.eu.int/comm/agriculture/events/sofia/ahner.pdf>

⁴³ *Select Committee on European Union*, Second Report. Chapter 2: ‘Introducing the Common Agricultural Policy’, <http://www.parliament.the-stationery-office.co.uk/pa/ld200506/ldselect/ldecom/007/706.htm>

⁴⁴ ‘Beet a retreat’, *The Economist*, June 23rd 2005 http://www.economist.com/cities/displaystory.cfm?story_id=4112150

⁴⁵ *Sugar Reform will offer EU producers long-term competitive future*, 22 June 2005 <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/776&format=HTML&aged=0&language=EN&guiLanguage=en>

⁴⁶ ‘So who’s milking it?’, *The Guardian* June 26 2005 <http://politics.guardian.co.uk/eu/story/0,9061,1514620,00.html>

5. Environmental Effects of the CAP

Among the objectives added to the CAP in the early 1990s was “to preserve the countryside and the environment”⁴⁷. But has the CAP been a negative or positive force in shaping the environment of the EU?

In fact, the CAP has damaged the environment on several fronts, increasing pollution and resulting in environmental degradation. The “misallocation of resources” tag so frequently applied to the CAP has had environmental costs as well as costs to the economy. Agricultural water pollution, for instance, is just one of the side effects. By linking subsidy payments to production, intensive farming methods have been encouraged, which often have negative environmental consequences. Particularly damaging has been the heavy usage of pesticides and fertilizers, in addition to the concentration of livestock production⁴⁸. The WWF in the UK has calculated that the areas in Scotland affected most are those which receive the highest CAP payments, with 31% of the payments directed to Scotland (£232.5 million of £750 million) driving intensive cereal farming along the east coast⁴⁹. At the same time, water companies spend £16 million a year removing nitrates from the water (to the limit of 50 milligrams per litre⁵⁰) to make it drinkable again, yet another cost which is passed on to the consumer.

The environmental problems associated with farming generally increase with increased intensity of production. For the dairy industry, this has manifested itself in the form of high use rates of chemical fertilisers, and (arguably less seriously) loss of open grassland⁵¹. A similar story of problems is associated with most types of farm production within the EU.

According to DEFRA, the concentration of production in cereal and dairy sectors has led to:

increases in water pollution; increases in greenhouse gas emissions; soil erosion, compaction and contamination; and increased levels of ammonia and acidification; also loss and degradation of habitats with further declines in farmland biodiversity; and loss and degradation of landscape features such as hedgerows and damage to archaeological features.⁵²

Following rains, the nitrates in the fertilizers run off the land, into drainage ditches, and eventually finding its way into rivers. According to the Department for Environment, Food and

⁴⁷ Howarth, R., ‘The CAP: History and attempts at reform’ *Economic Affairs* Volume 20 No. 2 (June 2000)

⁴⁸ ‘Overcoming Agricultural Water Pollution in the European Union’, World Bank Group <http://www.worldbank.org/fandd/english/0996/articles/0100996.htm>

⁴⁹ WWF Briefing on Nitrate Pollution http://www.wwf.org.uk/news/scotland/n_0000000546.asp

⁵⁰ British Water Factsheet 7 – *Nitrates in Drinking Water* http://www.britishwater.co.uk/consumer/Factsheet_Index/Factsheet_7/factsheet_7.html

⁵¹ *The Environmental Impact of Dairy Production in the EU* (executive summary) http://europa.eu.int/comm/environment/agriculture/pdf/arable_xs.pdf

⁵² *The Potential Environmental impacts of the CAP Reform agreement* <http://statistics.defra.gov.uk/esg/reports/capreform3/execsumm.pdf>

Rural Affairs, over 70% of nitrate in British surface water enters from agricultural land⁵³. This aids the growth of plant life in the water, as well as distorting the life present in favour of species more tolerant to organic compounds in the water. These green plants produce oxygen in daylight hours but respire at night. In conjunction with the decay of dead aquatic vegetation, this can deplete the level of oxygen in the water to below the level needed to sustain fish and other animal life⁵⁴.

The *European Review of Agricultural Economics*, speaking of the Agenda 2000 reforms, says:

A supplementary payment will be made in Finland and the Arctic regions of Sweden to compensate for the ‘extra drying costs of cereals and oilseeds;’ and in member states where ‘maize is not a traditional crop’ arable area payments can be made on grass silage grown on arable land.⁵⁵

Deciphering these reforms, we find that where costs are higher for producing cereals and oilseeds (a sign that other areas have natural advantages that in a free market would be harnessed) these higher costs will be neutralised by a subsidy, encouraging resources to be used in unprofitable areas. In addition, countries that do not grow maize are to be subsidised to grow a comparable crop. Such developments are inevitable – with the politicization of the schemes, each country will fight for as much money as possible in the zero sum game that CAP is. This pork-barrel politics will distort the incentives of production and lead to a sub-optimal outcome. The environmental cost however translates into real resources, which are wasted. For example the extra energy used to “dry” the crops must come from one fuel source or another, the opportunity cost of which is that it is not available for a more productive use. Given the pollution caused by current carbon-based economy sources of fuel, the CAP creates pollution with no tangible benefit.

Antibiotics and resistant diseases are another area impacted by the CAP. With the high concentration of animals in “factory farms”, it is easy for diseases to spread throughout a flock. Animals are often given antibiotics pre-emptively to try and reduce disease⁵⁶. There are concerns that this may lead to the development of new strains of existing diseases which are resistant to antibiotics. It may be the case that there is a market for chickens grown in this way, but the CAP has artificially encouraged these techniques. Admittedly the CAP has undergone a “greening” under recent reforms, with a greater emphasis on the environment. However, the “good farming practices” that are supposed to be encouraged are vague in nature, and it is difficult to monitor whether or not such new incentives are working, or are being targeted properly⁵⁷.

In summary, the CAP, a policy in which support prices play a crucial part, encourages intensive production that does not foster respect for the environment. The effects of the CAP on the environment are significantly worse than were the market left to its own devices. The attempts at

⁵³ *Nitrates – Reducing Pollution from Agriculture*

<http://www.defra.gov.uk/environment/water/quality/nitrate/default.htm>

⁵⁴ 2002 205(b) Report: *The Status of Water Quality in Tennessee*, Part VII Causes of Water Pollution
[http://www.state.tn.us/environment/wpc/305b/2002/305\(b\)%20causes.pdf](http://www.state.tn.us/environment/wpc/305b/2002/305(b)%20causes.pdf)

⁵⁵ ‘CAP Review and the WTO: Compatibility and Developments’, *European Review of Agricultural Economics*, Vol 26(3) 1999 pp. 389-407, Swinbank, Alan
<http://erae.oxfordjournals.org/cgi/reprint/26/3/389>

⁵⁶ ‘MPs urge farm antibiotics cut’, BBC News, <http://news.bbc.co.uk/1/hi/sci/tech/288546.stm>

⁵⁷ Marsh, J and Tarditi, S., *Cultivating a Crisis: The Global impact of the Common Agricultural Policy*
http://www.unisi.it/cipas/output/030402-CI/Doc341%5B1%5D.htm#_Toc36038858

making the CAP more environmentally friendly again do not tackle the innate problems of the policy, are difficult to monitor and could be viewed as appeasement to environmental lobbies more than anything else.

6. Economic costs of the CAP within the EU

The economic costs of the CAP are wide-ranging. They affect those within the EU and those outside it. There are those costs that could perhaps have been predicted at the outset – food prices higher than they would have otherwise been for those in the EU, for example. There are however, costs in terms of damage to developing economies as a result of export subsidies, for example, which may have been harder to anticipate the nature or scale of. Despite the wide range of often very damaging situations the CAP has generated, European leaders have not been spurred to undertake much in the way of meaningful reform.

The economic costs of the CAP within the EU (costs to the rest of the world are discussed in other sections) can be split into four categories:

- The cost to the EU taxpayer. The financial burden of the CAP (comprising price supports, direct subsidies, export subsidies, administration etc.) is borne by the taxpayers of the European Union member states.
- The cost to the EU consumer – food prices within the EU are well above the prices on the international market⁵⁸. Under the CAP domestic production is guaranteed to be purchased at the (fairly arbitrary) price set by the CoAM, while imports suffer the imposition of tariffs to bring them up to this level as detailed earlier.
- The cost to other industries within the EU. Agriculture artificially retains labour and capital as a result of the incentives of high prices in agriculture. These are not naturally high prices but merely large distortions caused by the CAP.
- The calculation cost. This is a general cost in terms of not being able to perform everyday economic calculation with “real” market prices. This hurts the efficiency of an economy – without a true measure of relative costs, decisions will be made that lead to the wasteful use of resources.

Several potential arguments are not included as benefits. These include the fact that the EU is now self-sufficient in foodstuffs – an oft-cited fact but a spurious one. Fifty years ago it might have been possible to make such a claim: food shortages coupled with potential strategic concerns gave weight to the idea that some kind of food policy was necessary. Given that the current geopolitical situation is markedly different to that which existed at the time, it is not obvious why a government should pursue a policy of autarky in food, especially in light of the costs of the policy. To put it crudely, in a world with nuclear weapons, if Britain were blockaded and unable to import food from elsewhere, we’d all be dead already. Job creation arguments are also fallacious. Jobs may have been created as a result of CAP spending but CAP funds come from taxation. Such taxation represents a reduction in the purchasing power available to consumers, and hence the demand faced by other industries, which in turn results in less employment in those areas. Jobs are merely shifted from businesses doing useful things to those that are not.

⁵⁸ Kleijn, D. and Sutherland, W., ‘How effective are European agri-environment schemes in conserving and promoting biodiversity?’, *Journal of Applied Ecology* 40 (2003)

The cost to the EU taxpayer

The CAP has always consumed a large proportion of the EU budget, but the fact that this proportion has fallen of late can give a misleading picture of the situation. Initially the CAP essentially consumed almost the entire EU budget – there were no structural funds at the time – but while the proportion of the budget devoted to the CAP may have reduced over time, the absolute cost has risen to a disturbingly high plateau. According to the European Commission, CAP expenditure (excluding rural development and “accompanying measures”) was⁵⁹:

Year	CAP expenditure
2000	36,620,000,000
2001	38,480,000,000
2002	39,570,000,000
2003	39,430,000,000
2004	38,410,000,000
2005	37,570,000,000
2006	37,290,000,000

(Figures are Euros at 1999 prices)

Although agriculture accounts for only 1.7% of EU25 GDP, employing 4.3% of citizens⁶⁰, the expenditure directed toward it is massive. This is true not only in absolute terms, but also in terms of the percentage of the EU budget consumed – currently 45% of the EU budget, which is around 2-2.5% of EU GDP⁶¹. From this, it is clear that the tax burden required to support the CAP is considerable, and in addition to this exist administrative costs. In the jargon of the economist, the cost of CAP results in a “deadweight loss” – the market now fails to maximise producer and consumer surplus.

The cost to the EU consumer

The CAP, despite having the founding the goal of “reasonable” food prices, has consistently resulted in significantly higher prices of agricultural goods. This has been largely a consequence of support prices and the prevention of cheaper, overseas produce from entering the EU market unmolested. Historically support prices have been higher than world prices. Wholesale prices of sugar, rice and butter were 308 percent, 171 percent and 247 percent of the world price in 1991⁶².

While generally the poorest members of society will pay a reduced tax burden, with the CAP the food expenditure of low-income consumers is a greater percentage of their income than it is for those on higher incomes. In this regard the CAP acts as a regressive tax, saddling the poor with higher costs than the rich.

⁵⁹ *Reform of the Common Agricultural Policy (CAP)* available at <http://europa.eu.int/scadplus/leg/en/lvb/l60002.htm>

⁶⁰ *European Union: Basic Information, United States Department of Agriculture* <http://www.ers.usda.gov/Briefing/EuropeanUnion/basicinfo.htm>

⁶¹ ‘EU Summit: Collapse preferable to traditional fudge’, http://www.finfacts.com/irelandbusinessnews/publish/article_10002282.shtml

⁶² ‘From prices to Incomes: Agricultural Subsidization Without Protection’, John Baffes & Jacob Meerman, World Bank <http://www.worldbank.org/research/journals/wbro/obsaug98/pdf/article3.pdf>

The EU citizen is therefore subjected to the twin evils of higher taxes *and* higher food prices, with the former being used to finance the latter. The benefits that accrue to agriculture are as a result of a not inconsiderable cost to citizens of the member states, albeit a cost spread fairly widely. The combined cost of the two has been estimated at £250 for *every person* per year within the EU (i.e. including children) prior to the accession of the eastern European states⁶³. Other estimates put this cost at around £16 per week for an average family of four in the EU. Food is more expensive inside the borders of the EU than in almost all other nations⁶⁴.

This is highlighted all the more by the Agenda 2000 reforms. DEFRA calculates that by the time the reforms are fully implemented in 2008, they will give an economic benefit of £1 billion a year over the previous iteration of the CAP. Assuming that all of the reductions in farm gate prices are transferred to consumers, a 2% reduction in the Retail Food Price Index (a measure of the cost of food) would be effected, cutting the food bill faced by the average family of four a year by £65⁶⁵.

The cost to other industries within the EU

The overall support level for agriculture maintained at a high level, implies a burden for the rest of the economy and thus negatively affects overall economic growth – Rainer Wichern, Directorate-General for Economic and Financial Affairs⁶⁶

It is inherently difficult to obtain an estimate of how employment and production would have differed were the CAP not in place. What we can say is that the purchasing power of the average consumer would be higher were food prices and taxes to fall – a twofold increase likely in the absence of the CAP. Should this purchasing power be translated into other industries, there would be increased demand (and consequently employment).

Similarly resources (land, labour and capital) would no longer be drawn into agriculture based on the artificial signals propagated by the CAP, but would be employed in their most productive use according to genuine market signals.

Considering the gross inefficiency with which resources are used to enforce the CAP, total employment within the European area has undoubtedly been reduced as a consequence. It is not just the case that resources have been unnecessarily employed by agriculture, or that the composition of employment is changed within the economy – rather there is a cut in total employment. Had resources been directed by market signals the efficiency gains would have meant greater total employment and output. It has been estimated, although admittedly this is now somewhat out of date, that the cost of the CAP was around 1 million EU jobs in the

⁶³ Howarth, R., ‘The CAP: History and attempts at reform’, *Economic Affairs* Volume 20 No. 2 (June 2000)

⁶⁴ Consumers’ Association, ‘Setting Aside the CAP – the future for food production’
http://www.which.net/campaigns/food/agriculture/0112cap_br.doc.pdf

⁶⁵ *Agenda 2000 CAP reform – Economic Impact* available at
<http://www.defra.gov.uk/farm/agendtwo/econ.pdf>

⁶⁶ Wichern R., ‘Economics of the Common Agricultural Policy’, *European Commission Economic Papers* (August 2004)
http://europa.eu.int/comm/economy_finance/publications/economic_papers/2004/ecp211en.pdf

manufacturing sector⁶⁷. The cost in terms of employment when considering all industries within the EU is certainly higher.

Thanks to the CAP, businesses that would have been marginally profitable are no longer due to the higher costs imposed by the CAP, both from higher cost resources and reduced consumer demand. Such hampering of business growth serves only to weaken the overall growth of the EU, some areas of which are currently faring poorly in terms of economic growth (particularly the Eurozone)⁶⁸.

The calculation cost

The calculation cost is a cost that afflicts all areas of the EU and non-EU economy as a result of the CAP. For example, a farmer no longer bases what he or she produces on market prices, but will do so based upon which product yields the greatest subsidy or has the greatest degree of protection (assuming profit maximising behaviour). Decisions are based on prices and other information that does not reflect true scarcity. There is little doubt that the CAP results in a misallocation of resources⁶⁹. Expressed in the terms of an economist this may seem an unimportant cost, but such a statement is nothing but a summary of the total costs of CAP within the EU. Resources are not directed towards the areas which people – the market – would see them directed to; total wealth is lessened by such a misallocation.

⁶⁷ Stoeckel, A. 'Intersectoral Effects of the CAP: Growth Trade and Unemployment (1985)

⁶⁸ 'Eurozone growth near standstill', BBC News,
<http://news.bbc.co.uk/1/hi/business/4141122.stm>

⁶⁹ Packer R., *A Policy for Agriculture Ending State Interference* (London: Centre for Policy Studies, 2001) <http://www.cps.org.uk/pdf/pub/22.pdf>

7. External effects of the CAP

It is not only the taxpayers, consumers and environment of the EU that suffer from the effects of the CAP. Its distorting effect on trade can be felt as far away as Africa, Oceania and North America. On the face of it “distortion of trade” may not appear to be a serious charge, but the CAP harms the economies and hence the incomes of those countries outside the EU. Under almost all models, the situation the abolishing of export subsidies and import tariffs would benefit those seeking to export agricultural products to the EU market⁷⁰. This would apply not only to existing exporters of agricultural goods but also could apply to less developed countries across the globe.

There are, roughly speaking, three categories of nations outside the EU affected by the CAP. All categories are subject to twofold costs: firstly the denial of unrestricted access to the EU agricultural market (although for one category this cost is markedly reduced), and secondly the costs imposed by the dumping of surpluses on world markets, which depresses prices. Clearly the cost of the CAP to any given economy will vary depending on its composition, specifically the magnitude of the agricultural sector.

The first category are those nations such as Australia and New Zealand with developed agricultural sectors and generally developed economies. Australia, for example, had a GDP per capita of \$30,700 at the 2004 estimate⁷¹. Characterized by efficient agricultural production, the cost imposed by the CAP comes in the form of reduced agricultural exports and employment. Many of these countries are part of the Cairns group (a group of 17 exporting agricultural nations), which they have set up to push for agricultural reform and the meeting of conditions agreed upon in the WTO⁷².

The second category are the middle-income countries such as Brazil. Agricultural production and exports are important to the overall economy, but there are other established industries. In these countries agriculture is a diverse sector, with farms ranging from commercial exporters to subsistence farmers. They face significant barriers to selling to EU consumers.

Considering then the relatively developed nature of these two categories of economies (especially the first), there are alternate employments available to workers (although this should not be taken as a defence of the CAP). In light of this such countries arguably face a reduced level of cost than poorer nations.

The third category are the poorest countries, especially in Africa. They have an advantage in agriculture because of low labour costs and land costs (huge open spaces). More importantly, they possess a *comparative* advantage in such production – they are (currently) more efficient in the production of agricultural goods than other goods. This is especially true in rural areas. Alternative jobs in the poorest economies are few and far between compared with a developed economy.

⁷⁰ *The Common Agricultural Policy Options for Reform and their Potential Impact UK Food Group* available at <http://www.ukfg.org.uk/docs/CAPBB2.pdf>

⁷¹ *CLA World Factbook* <http://www.cia.gov/cia/publications/factbook/rankorder/2004rank.html>

⁷² Cairns Group, <http://www.cairnsgroup.org/>

The third category countries generally exhibit low levels of GDP per capita, undeveloped infrastructure and, crucially, a high proportion of labour employed in agriculture. Examples of this include Mozambique, which in 2002 had a GDP per capita of \$223 per head, Chad with \$231 and Zambia with \$422⁷³. In Mozambique, for example, more than 80% of the populace reside in rural areas, where agriculture is the main if not the only form of employment⁷⁴. This trend is mirrored across the globe – approximately 75% of the world's poor live in (rural) areas where agriculture and related industries (leather, farming tools, etc) are a key employer⁷⁵. 49 of these countries benefit from the Everything but Arms agreement. While this does give them tariff-free access on everything but arms, rice, sugar and bananas, it does not remove the anti-competitive effect of subsidies to EU producers. Everything but Arms is therefore of limited benefit.

The abolition of the CAP would lead to create two benefits for the rest of the world – unfettered access to EU markets and an end to export subsidies. The former would allow export-based growth for farmers in undeveloped countries. The latter would lead to an end of the depression of world agricultural prices (it is worth bearing in mind the United States has said it will end agricultural protection if the European Union does⁷⁶). Producers in the developing world previously priced out of their domestic market due to EU subsidies would become viable. More generally, lesser-developed nations with ample agricultural production potential would see the increased price result in an incentive to produce, likely increasing food availability and reducing the dependence on imports⁷⁷.

Consider again the example of Mozambique: the sugar industry is the largest employer in the country, and, by world standards can produce cheaply at €286 a tonne. This is significantly cheaper than in the EU⁷⁸. However, currently the resources transferred from the efficient elements of the EU economy in the form of subsidies to inefficient farmers drives down the price of sugar to a level that means there are fewer sugar producers than there would otherwise be in Mozambique. Similarly for the Dominican Republic, the EU gives \$15 million a year to Arla Foods, a subsidy that enables them to undercut local prices by 25 percent⁷⁹. Whether or not it is intended, the result of this is to deny employment to those in developing nations, and limit the extent to which the agricultural sector can develop.

⁷³ Miles, A, Feulner, E. O'Grady, *2005 Index of Economic Freedom* (Washington DC: Heritage Foundation, 2005)

⁷⁴ *Stop the Dumping! How EU agricultural subsidies are damaging livelihoods in the developing world*, Oxfam, available at <http://www.globalpolicy.org/soecon/trade/subsidies/2002/10stopdumping.pdf>

⁷⁵ *Agriculture*, OECD <http://www.oecd.org/dataoecd/22/53/25507214.pdf>

⁷⁶ Tim Worsall, 'President Bush says yep we'll end subsidies', July 4th 2005, http://www.globalizationinstitute.org/blog/0507_president_bush_says_yep_well_php

⁷⁷ Trueblood, M. and Shapouri, S. *Low Income Developing Countries and Trade Liberalization: an Overview of the Issues* available at

www.ers.usda.gov/Briefing/EuropeanUnion/PolicyCommon.htm

⁷⁸ *Stop the Dumping! How EU agricultural subsidies are damaging livelihoods in the developing world*, Oxfam, available at <http://www.globalpolicy.org/soecon/trade/subsidies/2002/10stopdumping.pdf>

⁷⁹ 'European Agricultural Reforms: A Pig in a Poke?', *Christian Science Monitor*, June 30 2003

Beyond the CAP

There exists the mentality among developed nations that if they abolish or reform the agricultural policies that they will lose out to those nations who keep the status quo. This is almost certainly not the case; there are clear gains from lower food prices as a result of removing tariff barriers, as well as reduced budgetary pressures. In short, such a mentality is unfortunate as it decreases the chance of agricultural policy reform despite the clear benefits. But if the EU were to proceed with a *unilateral* withdrawal of agricultural support, as we suggest it does, other nations would doubtless follow suit.

The EU also suffers from a problem of credibility as a result of the CAP – it is difficult to preach that more should be done to help the world's poor when such a policy remains in place. It suggests a higher valuation on a minority special interest than alleviating poverty and has served as a sore point in relations with other countries. It has firstly provoked the ire of those developing nations who suffer the most as a result of it. Given many countries feel CAP denies their farmers markets and their economy much needed exports, it is not a large leap of faith to state the CAP makes life more difficult for EU nations in trade talks. There are also disputes based on more trivial aspects of the policy. There have, for example, often been bitter relations with the United States of America regarding Europe's preferential access for former colonies for bananas, a subject which has been raised several times in recent years with the "banana wars"⁸⁰.

The distortions of trade caused by the CAP do not merely result in a misallocation of resources within Europe. The returns to factors of production employed in agricultural production are lower in the rest of the world as a result of the CAP, which weakens profitability of other nations farming sectors. Bizarre situations have arisen based on the fact that non-EU farmers still seek to access the EU market. In 2001 for instance, Germany became the world's fourth largest exporter of coffee. This is bizarre because Germany does not grow any coffee, but in spite of this ranks above Indonesia, Guatemala and Mexico in the export stakes. The cause was simple - the tariffs on coffee products were so much higher than those of the coffee beans, it made economic sense to pay the tariff getting the beans into the EU, then roast them in Germany⁸¹. Again, the CAP imposes unnecessary costs on the world economy by accident rather than design; clearly in a tariff-free environment, coffee would have been exported by other nations, enhancing their development.

However undesirable tariffs are in themselves, their lack of uniformity also warps the way in which resources are allocated. For example the tariff levels on raw materials are lower than those on finished products. As a result countries like Ghana export cocoa, as the tariff levels on the finished good of chocolate, are much higher⁸². These goods are then finished in the EU before being sold to consumers. The implications of this are obvious, when a product could be created at a lower cost to the consumer, it isn't. In this instance the contrary tariff incentives mean that the resources are transferred from poorer nations to rich ones – in this case all of the production could occur in Ghana. (Ghana is not classified as one of the 49 least developed countries⁸³, and as such does not benefit from the EBA agreement.)

⁸⁰ 'EU defeat in banana export battle', BBC News, 1st August 2005

<http://news.bbc.co.uk/1/hi/business/4735983.stm>

⁸¹ 'Germany: A Coffee Exporter?' *Tea & Coffee Trade Magazine*, Volume 176, No. 4, April/May 2002 <http://www.teaandcoffee.net/0402/world.htm>

⁸² 'Promises, Promises', *New York Times*, August 22nd 2005

<http://www.nytimes.com/2005/08/22/opinion/22mon1.html>

⁸³ <http://www.un.org/special-rep/ohrlls/ohrlls/allcountries.pdf>

8. Moving to the abolition of the CAP

To the end of abolishing the CAP, there are several options that could be pursued. Some of which are more politically palatable than the others.

- 1) Introduce a deflator in the CAP budget, so that every year the budget is a given percentage less than the year before.
- 2) Immediate Cessation of CAP payments, now or at some given time in the future.
- 3) Give farmers a one off payment to facilitate the abolition of the CAP.

All of these options have much to be said about them. The first option of introducing a deflationary factor in CAP payments would be difficult to maintain over time. Should political will become weaker as the value of payments dwindles (and continuing reform becomes less of a necessity), Public Choice economics tells us farmers, bureaucrats and countries that are net beneficiaries of CAP would lobby for the halting of the decline in payments. The prolonged abolition period would make it difficult to eventually fully abolish the CAP payments; therefore we find it difficult to recommend this course of action. However, was the deflator severe enough, the will to eliminate CAP as a budget item may not falter. For this to happen though, a target should be set at the most 5 years in advance at which point the payments should cease and the bureaucracy and all support systems surrounding the CAP be disbanded.

The next option would be to set a deadline for the abolition of CAP payments, using the theory of rational expectations we would expect farmers if given suitable notice to only then continue sustainable farming practices, rather than continue with loss-making industries. This plan too has faults, however. Again Public Choice theory tells us many will lobby for an extended period until payments are abolished. Also the case for “one off” payments and other methods of support will be made. Not only that but this plan is also imperfect due to factor immobility – tractors have little other use, as farmers can produce subsidised until the time at which the payments stop, many may continue in the hope that it would not be possible to cut off farmers. An example of this reaction can be seen with textile manufacturing. With China’s accession to the WTO, in theory clothing could be freely traded from the January 1st 2005. However after lobbying from those affected, the EU (led by countries with large textiles sectors such as Italy) has imposed textile quotas under the Textile Specific Safeguard Clause⁸⁴, which gives the EU until 2008 to fully free up imports. This behaviour would likely be mimicked by farmers – although textile manufacturers have had 10 years to prepare for free trade, they still complain.

The third option however is more promising. By giving farmers a one-off payment, then eliminating the CAP mechanism, many of the problems associated with change would be alleviated. The money could be used for whatever the farmer wished. Some may take early retirement and farm as a hobby. Others may use the money to invest in a business idea – as the majority of smaller farmers are self-employed they will already be aware of the pressures of a small business, as well as how to run one. This would stand them in good stead for an independent career.

⁸⁴ ‘EU Quotas Put Retailers, Textile Makers at Odds’, *Wall Street Journal*, August 16th 2005
<http://online.wsj.com/article/0,,SB112413279606713553,00.html>

Alternatively farmers may use the money to invest in their farms if they feel they are able to compete on a global marketplace and under the changed circumstances of the EU market. Investing in machinery for different crops is one area we would expect to be pursued, or using the money to support the transition period for a farm to become organically certified, typically 5 to 7 years⁸⁵. Those farmers not affected by the change and who see their farms as still viable (possibly even more so after the change) would be able to spend the money on capital for their business, or alternatively encouraged to save the money for the future. Some churn of farmers should also be expected, as it is to be expected that some people will have ideas about ways to make a profit in the new market reality of European farming. This is to be expected and encouraged as with them will come fresh ideas and ways of encouraging agriculture.

In order to finance this initial outlay, different schemes should be considered. One method we suggest would be for the EU to issue bonds on the financial markets. From its budget every year the EU would be gradually able to repay the initial outlay.

⁸⁵ Dick Cobb, Ruth Feber, Alan Hopkins and Liz Stockdale, *ESRC Global Environmental Change Programme: Organic Farming Study*, <http://www.sussex.ac.uk/Units/gec/pubs/briefing/brief-17.htm>

9. The future of the countryside

Agricultural production in terms of volume within the EU will shrink following the abolition of the CAP. The greatest reductions would be expected to occur in those areas previously afforded the greatest degree of protection: oilseeds, cereals and livestock⁸⁶. Here we outline several possible scenarios for the post-CAP era, although obviously the level of reform of the CAP will significantly impact which schemes give current farmers opportunities to earn a living.

a) High Value Farming

While Europe may have an absolute disadvantage in the mass production of some foods, the growth of organic food and the niche markets associated with it, places European farmers in prime position to benefit. Already having some of the highest environmental standards in the world, and with the value of this market expected to grow in the future, there is a clear potential market income stream for EU farmers.

The kind of environmentally-friendly farming we envisage would entail the eradication, or at the very least the scaling back of factory farms in the UK. This rests upon the assumption that this end of the market is better (i.e. more cheaply) catered for by imports. Considering that even with the current regime of EU subsidies, nations such as Brazil and Argentina produce significant quantities of meat at lower cost than their EU counterparts, this is not an unreasonable assumption. In order to compete therefore, a different approach is needed. In 2001 organic farming accounted for only 2 percent of the total agricultural area in the EU⁸⁷. Citizens within the EU generally are sufficiently well off that basic nutritional needs are not considered a problem. As incomes rise, people's preferences tend to become more concerned with the quality of the food. This can be observed in the market for eggs: free-range eggs have come to be around 30% of eggs sold⁸⁸, despite their higher cost. The main innovations of 50 years ago were those pioneered by Sir Anthony Fisher – using factory farmed broiler chickens caused a fall in costs with a corresponding price reduction to a sixth of what it had been. His wife later said “Antony did more to put a chicken in every man's pot than any king or politician ever did”⁸⁹. He also made a handsom sum in the process. The innovation, or at least the market segment, that could allow today's farmers to prosper could be that of corn fed, free-range chickens.

Advocates of organic farming can be found across society, including animal welfare groups such as the RSPCA, environmentalists such as Friends of the Earth and industry groups such as the Soil Association. Prince Charles is also known to be strongly in favour, founding one of the

⁸⁶ Salvatici, L., ‘Trade Distortion Indexes and Multi-Regional AGE models: the case of the Common Agricultural Policy’ (working paper) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=291947

⁸⁷ Parris, K, ‘Measuring the Environmental Impacts of the Common Agricultural Policy: Challenges, Recent Trends and Outlook, and Future Directions’ presented to the European Institute of Public Administration Seminar http://www.eipa.nl/Publications/Summaries/01/31401/5_Parris.pdf

⁸⁸ Paul Brown, ‘Minister May Ban “Enriched” Cages for Battery Hens’, *The Guardian*, June 26th 2002.

⁸⁹ John Blundell, ‘No Antony Fisher, No IEA: The Case for Freedom After 50 Years’, *Economic Affairs*, Volume 18, No. 3 September 1998

UK's leading organic food brands, Duchy Originals, "because of his belief in the clear advantages of organic farming: the production of natural and healthy foods and sound husbandry which helps to regenerate and protect the countryside"⁹⁰. The demand for organic produce is clearly present also, with the explosion in health food shops and supermarkets stocking an ever-increasing proportion of organic milk, cheeses and meats as well as other more expensive goods such as "fair trade" produce.

A good marketing campaign in association with supermarkets could result in an additional surge in the demand for such produce. This argument is all the more powerful when the fact it will likely take several years to abolish CAP, meaning the power of compound growth will be given a chance to take effect. Taking the example of the UK, with a current Purchasing Power Parity GDP per capita of \$29,600⁹¹, if a growth rate of 2.5% can be maintained, in 10 years the average income will increase 28% (assuming gains are equally distributed) to \$37,890. Even if this cannot be maintained, it is likely that sufficient growth will materialise to translate into demand for high quality food.

b) Tourism

European farms, as well as being working farms have the potential to become destinations for eco-tourism. A return to traditional farming methods in particular would allow the maximum to be made of this, with farmers entertaining groups of schoolchildren, amongst others, for trips around a genuine farm. Not only would people be able to see how food is produced (organic farms are much more photogenic), but see and experience the milking of cows and sowing of crops. This would give city dwellers the chance to be familiar with traditional ways of life, allowing farms to become working museums.

Another area tied in with this is that of Farm Shops. With farms open to the public to visit, and an increase in countryside visits, farms would be able to make an increasing proportion of their income selling what they produce outside of the current distribution channels. By selling directly to tourists, the tourists would be able to see where the food was produced (adding value to the product) while the farmers receive a higher price for their goods.

c) Sustainable communities and stewardship

The current planning system dates back to the 1947 Town and Country Planning Acts⁹². Since then very little additional land has been used for construction (currently only 10% of land in the UK is classed as "urban and suburban"⁹³) while the population has steadily increased. Much of this is because of restrictions such as the green belt that effectively forbid building on new sites around cities⁹⁴. This area covered 12% of the UK in 1990⁹⁵.

⁹⁰ The Prince's Charities: Duchy Originals

http://www.princeofwales.gov.uk/trusts/duchy_originals.html

⁹¹ *CLA World Factbook*, <http://www.cia.gov/cia/publications/factbook/fields/2004.html>

⁹² John Corkindale, *The Land Use Planning System*, Hobart Paper 148, Institute of Economic Affairs

⁹³ *Land Use and Landscape*, Environment Agency http://www.environment-agency.gov.uk/yourenv/eff/land/213950/landuse/?version=1&lang=_e

⁹⁴ *Liberating the Land*, Mark Pennington, Hobart Paper 143, Institute of Economic Affairs

⁹⁵ *Planning Rape*, Alister McFarquhar, Adam Smith Institute

<http://www.adamsmith.org/policy/publications/pdf-files/planning-rape.pdf>

In order to prevent “urban sprawl”, the way we permit new housing to be developed could be radically developed. Small communities could be built, with homes that have as small an ecological footprint as possible. Homes built with energy conservation in mind would be recommended here. It is important however that new homes be constructed, with the UK expected to gain an additional 3 million households by 2016⁹⁶.

To prevent the countryside being “concreted over” as some fear, following the development of a community, a new type of green belt could be imposed. If a contractual agreement with the purchase of a new rural home was to arrange with neighbours the maintenance of a given area of land surrounding the conurbation, no persistent costs need be borne by government for preserving the environment. Indeed such homes could well prove to be popular with newly retired workers, who would have the time to maintain these areas as well as enjoy the scenery and slower pace of life (compared to cities). Looking at the economic insights of Ronald Coase, we can also determine that there would be a market for fulfilling these contracts in maintenance for those who are adverse to such work. This boost to rural employment could well provide an alternate career to those who no longer wish to farm – the job would contain many of the perceived desirable quantities of farming (spending time outdoors, working at one’s own pace, etc). At the same time the move away from cities would increase the supply of housing available to workers, many of whom are currently priced out of the market.

With increased housing in the countryside, the increased area will be able to support more local amenities and services. Facilities currently under threat are post offices, shops and pubs, with more custom many of these businesses would be able to return to profitability. Such pillars of the community are essential in helping to maintain the countryside as a viable place to live. Without their influence, the rural areas could become deserted areas filled with only second homes and a museum-like atmosphere. Owing to planning restrictions, the supply of homes in rural areas is essentially fixed. The fact that by 2002 there were over 100,000 second homes in rural areas⁹⁷ means there are fewer homes available to locals. The solution however is not to ban second home ownership, as some have suggested⁹⁸, but to instead allow more homes to be built so those wishing to live in such areas are able to do so. The money second home owners inject into communities is also recognised, with many earning a living because of it⁹⁹.

The need for additional housing can be seen by looking at house prices in national park areas. Exmoor for example in 2004 had a median house price of £285,000, up 27% from a year earlier and a mean house price of £344,220 up 24% from a year earlier. This figure is 83% higher than

⁹⁶ ‘Modern Methods of Housebuilding’, Parliamentary Office of Science and Technology, Postnote, Number 209, December 2003

<http://www.parliament.uk/documents/upload/postpn209.pdf>

⁹⁷ ‘Second Homes and Holiday Homes’, The Countryside Agency,

http://www.countryside.gov.uk/EssentialServices/Housing/second_and_holiday_homes.asp

⁹⁸ ‘Meacher proposes second-home ban’, BBC News, September 30th 1999

http://news.bbc.co.uk/1/hi/uk_politics/462354.stm

⁹⁹ ‘Home, Second Home’, BBC News, 6th September 2001

<http://news.bbc.co.uk/1/hi/uk/1527092.stm>

the average for the South West and 84% higher than the UK average¹⁰⁰. Another example is also that of the New Forrest where the average home is currently priced at an average of £248,805¹⁰¹.

The plight of rural communities can be illustrated with a few examples - the Campaign for Real Ale has calculated that each month 26 local pubs close their doors permanently¹⁰². With an increased population in the area many of these may be able to be saved. Post Offices in rural areas are also under threat, in 20% of villages the local Post Office is the last remaining shop¹⁰³ with in March 2004 only 8,197 remaining in rural areas (a drop of 1,000 since 1998)¹⁰⁴. Local bank branches are equally under threat; an influx of population could reverse these trends. However it must be recognised that many of these reductions with regard to banks derive from innovations such as telephone and internet banking, eliminating the need for many bank branches.

d) Niche Markets

Farmers in certain areas could be given an exemption from hunting bans. This would allow hunters to pay the farmer for use of the land, and develop a sustainable alternative to farming, much like certain areas in the highlands of Scotland are cultivated for their grouse shooting potential. In addition to this, the relaxation of bans on hunting with dogs would allow the continuation of traditions which could otherwise be lost should the ban continue, as well as stimulate the economy of rural areas. Beyond grouse shooting, other farmers could be offered licenses to keep firearms, and develop their land into hunting reserves. Areas which are fenced off to the general public and properly marked, where wildlife is encouraged could allow farmers to create a hunting industry in the UK. As this would not be viable in all seasons, or at all times, at other times the woodland and countryside rich in local fauna and flora would be available for a diverse range of activities. Potential uses range from paintballing to rambling.

Other farmers could be offered other exemptions from laws to allow them to earn a living. In some places for example restrictions on the use of airspace could be lifted, giving farmers a different kind of marketable commodity – the ability to offer ballooning and flying over their land. An example of an obscure hobby that could be given the opportunity to flourish on a given area would be that of model rocketry, allowing one farm in each area an exemption for the standard altitude ceiling would allow model rocket enthusiasts to use it.

Nor is it unimaginable that other crops could be found for British farmers to grow. Freed from producing to the subsidies offered, other crops could be experimented with – wine has been produced for centuries (38 vineyards are mentioned in the Domesday book) and is re-emerging as an industry after its near elimination following the Black Death, and later the reign of Henry VIII. From only 25 vineyards remaining in 1967, by 1986 there were over 300¹⁰⁵. At present

¹⁰⁰ 'Exmoor National Park – Annual House Price Survey', Exmoor National Park Authority, http://www.exmoor-nationalpark.gov.uk/ExmoorNPA-News/PressR_2004/No4_Aug2004.htm

¹⁰¹ 'UK House Prices', BBC News, August 17th 2005
http://news.bbc.co.uk/1/shared/spl/hi/in_depth/uk_house_prices/html/24uj.stm

¹⁰² 'Pub Closed Forever Everyday!', Campaign for Real Ale
<http://www.camra.org.uk/SHWebClass.ASP?WCI=ShowDoc&DocID=11984>

¹⁰³ 'Ghost town Britain looms', *The Guardian*, December 16th 2002, p.7

¹⁰⁴ 'Pleas ignored as 600 town post offices go', *The Guardian*, December 18th 2004, p.11

¹⁰⁵ 'Viticulture in England', Wroxeter Roman Vineyard
<http://www.wroxetervineyard.co.uk/viticulture.shtml>

there are over 2000 acres of land devoted to wine production in England and Wales, the cumulative total of over 400 commercial ventures¹⁰⁶.

Another example of a product few would associate with UK farms was found in the BSE crises of 1996. After losing their herds some farms in the UK began farming exotic meat, most notably Ostrich. While few supermarkets remain selling these meats (of those that began), Sainsbury's still sells around 300kg of Ostrich steak per week¹⁰⁷. With the elimination of support for meat such as Beef and Lamb (which make them more attractive to the consumer), other meat could be given an opportunity to be produced. With surplus farmland, already existing industries such as Venison, Guinea-Fowl, Pheasant, Grouse and Veal could be developed. Meats like Guinea-pig (a delicacy in Peru) might be introduced into Britain.

e) Remain producing

It is not the case that all farms in Europe are inefficient and unable to compete on world markets with their current business model. Should the EU eliminate its tariff and subsidy barriers to entry, it is likely other countries will follow suit, allowing those European farmers who are successful to expand, taking not only the market share of the inefficient farmers, but also branching out into exports.

EU farming, in addition, has other advantages that would ensure production will continue at some level. Taking the case of milk, it is simply not practical to import fresh milk in the vast majority of cases (the exceptions to this are in border areas, however even then it is unlikely there will be a large difference in costs between two areas that are geographically close). Other products are tied to using EU farms – many supermarkets are proud to offer British Beef, and Aberdeen Angus steaks, certificated as produce of Scotland. Another industry which is unable to switch its source is the Whisky industry – Scotch Whisky is one of the UK's top export earners, with exports over £2.2 billion¹⁰⁸ (primarily to America), the raw materials needed for the production of Scotch cannot be sourced from elsewhere.

Given the large expatriate community in the USA as well as citizens of European descent all over the world, traditional dishes such as Scottish Haggis could end up being exported in much larger quantities. Such traditional products could endure a renaissance with the abolition of artificially cheap substitutes.

Unfettered access to the US market would represent a significant opportunity to European producers, the efficient of whom would be able to significantly increase exports. With the integration of the two markets, specialisation could then go further. For example one would expect the more efficient cereal producers of the US to win a proportion of business in Europe – American farms are on average 473 acres compared to the EU average of only 40 acres¹⁰⁹. These larger farms allow them to take advantage of economies of scale, leaving European farms free to produce other goods.

¹⁰⁶ 'The Vineyards of England and Wales', <http://www.english-wine.com/vineyards.html>

¹⁰⁷ *Ostrich Farming in the EU – a Feasibility Study*

<http://www.macaulay.ac.uk/livestocksystems/feasibility/ostrich.htm>

¹⁰⁸ About Whiskey, Scotch Whiskey

<http://www.scotchwhisky.com/english/about/whatscot.htm>

¹⁰⁹ Corrado Pirzio-Biroli, 'The EU is Ready for Broad Negotiations on Agricultural Reform', *European Affairs*, http://www.europeanaffairs.org/archive/2001_winter/2001_winter_94.php4

Conclusion

The Common Agricultural Policy is a disaster, focussing production in areas where the EU is not very good. The inflated food prices that EU consumers face, and the taxation that is used to fund them, represent nothing but theft from the common citizen. Additionally, this aspect of the policy afflicts the poor more than other groups in society – an outcome seldom desired. Economic growth is diminished as result of the huge financial burden of the CAP coupled with the other factors outlined earlier. Resources are wasted with no justification. The developing world is damaged by the export subsidies the EU insists on using. The environment is degraded by the incentives to use intensive farming techniques and chemicals, while there is an extraordinary general misallocation of resources. Those nations bordering the artic regions do not produce certain agricultural goods for very good reason; to try and redress this “imbalance” is political madness of the worst order, showing ignorance of the most basic economics. Yet this is what the CAP promotes.

Even developed nations outside the EU bear a cost of billions of dollars a year thanks to the CAP. Efficient agriculture is stunted, while the world economy suffers, just like that of the EU.

The astonishing aspect of the CAP debate given the enormous costs of the policy, many of which are utterly unambiguous and transparent, is that the benefits are at best trivial. It may be said that the EU is now self-sufficient in the production of food – a valid point, but this does not mean that EU citizens would have starved in its absence. Other nations are quite clearly capable of providing the food needs of Europe. If it is indeed necessary that the EU be self-sufficient in food production, why stop there? Why not aim for total autarky?

It may also be said that the farmers of the EU have prospered under the CAP. Again, this is a valid point albeit to a very limited extent. The fact that a few of the largest farms consume most of the resources of the CAP hardly lends itself to a picture of a policy preserving a rural idyll, while a significant amount the money provided by the CAP is spent in costs, instead of a payment from which farmers get the whole benefit. Rather it is a handout to business interests who wield a disproportionate amount of influence in Brussels.

For many in developing nations there is no alternate form of employment, and hence no alternate route to development, other than agriculture. Therefore subsidising world food prices is nothing but a way of benefiting (by comparison) wealthy EU farmers at the expense of those in the developing world.

We should not fall into the trap of believing that the CAP is necessary for the preservation of the countryside. As we have shown in this report, the CAP is actually harmful for the UK’s environment and it does not follow that the end of CAP means the concreting over of the countryside. The Prince of Wales has given us the vision of a countryside concentrating not on high output *per se* but on high quality, high value produce. This is a market in which the UK has considerable potential to compete after the CAP. Combined with other measures, the future of the countryside after the CAP is a green and pleasant land.